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SUBJECT: PRIVATE SECTOR LEADERS POSITIVE ON RELATIONSHIP  
WITH COLOM

¶1. (U) Summary: On October 6, the CACIF (Coordinating Committee of Agricultural, Commercial, Industrial and Financial Associations) board of directors hosted Ambassador McFarland for lunch to describe its priorities and its relationship with the Colom Administration. CACIF directors made clear that the private sector has a constructive working relationship with the Colom administration and that the administration is open to private sector input into policy decisions. They delivered a presentation on a host of measures the government should take to enhance national competitiveness, and made clear they have engaged the GOG in dialogue about its controversial tax reform package. End Summary.

Tax reform and competitiveness  
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¶2. (U) CACIF President Jose Pivaral and CACIF's Board of Directors hosted the Ambassador, DCM, Pol/Econ Couns, and Econoff for lunch October 6. CACIF leaders said they have actively engaged President Colom and his administration in policy discussions, particularly on a proposed overhaul of the tax system. While the government and the private sector were unable to agree on all the elements of the tax reform proposal, CACIF representatives said that private sector concerns were taken seriously and some of their suggestions were incorporated into the draft legislation. In addition, the most controversial portion of the legislation, income tax reform, was removed from the package to be discussed separately in January. CACIF representatives said they were committed to negotiating with the government to ensure their concerns about pending legislation were addressed constructively, rather than oppose Colom administration initiatives outright which could result in legislative paralysis (as occurred during the Portillo administration).

¶3. (U) Carlos Amador, Deputy Director of the Agricultural Products Exporters Association, discussed CACIF's recommendations to the Colom Administration to enhance national competitiveness. He noted that fiscal reform alone may improve distribution of wealth, but would not improve Guatemala's GDP growth or guarantee national development. Rather, the rapid generation of permanent employment was the only way to ensure Guatemala continues to develop and improve living standards for all Guatemalans. CACIF's goal was to convince the national government that the way to do this is through the rapid implementation of an integrated competitiveness program. Amador mentioned several areas the government should emphasize as part of the competitiveness program including:

-- improving country risk rating so as to lower interest rates available for sovereign debt;

-- infrastructure development;

-- shifting the electricity grid to renewable and other low cost fuels (e.g. coal);

-- adoption of ILO 175;

-- creation of new and strengthening of existing institutions related to "quality." This is to help ensure products produced in Guatemala comply with export regulations and international quality measures such that markets will not close to Guatemalan exports.

14. (SBU) None of the CACIF members present presented ideas on how the GOG would fund these programs.

#### Security

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15. (U) CACIF members discussed a recent meeting they had with president Colom on security issues. During the meeting, participants noted their dismay over the increase in drug trafficking and organized crime in Guatemala and at rampant corruption in the national police. They noted that national police action against organized crime was all but ineffectual without the support of military units. CACIF members supported President Colom's plans to increase the size of the army and police, but wanted a different way to pay for it than taking on additional debt, as international financial institutions had reportedly advised the GOG do. Finally they discussed the need to enhance military intelligence capabilities to develop operational intelligence and the capacity to act quickly.

#### Geopolitical developments

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16. (SBU) Several CACIF directors noted their perception of the growing influence of Venezuela and leftist regimes in Latin America including Ecuador, Bolivia, Nicaragua, Honduras (with its entry into ALBA) and possibly El Salvador if the FMLN takes power. They complained about the perceived inattention of the United States to this growing threat due to ongoing international conflicts. Pivaral opined that the EU and NGOs were filling the vacuum that the USG was, in his view, ceding. The Ambassador responded that the perception of USG neglect of Latin America was an area of frustration for the USG given the doubling of assistance to the region since 2000, the frequent trips by President Bush and other senior officials to the region, numerous free trade deals, success with Plan Colombia and our partnership with President Uribe, and finally, the Merida Initiative. The Ambassador also observed signs of weakness in Venezuela's message, most notably Chavez's failed intervention in the Peruvian election. He also stressed that good, effective governance is the best way for other countries to respond to populist challenges.

17. (SBU) Comment: The CACIF presentation seemed designed to showcase the ability of Guatemala's conservative private sector to work constructively with the left-leaning Colom administration. The fact that there is an organized government-private sector dialogue is a tribute to both sides. CACIF leaders were cautiously optimistic that President Colom would continue to consult them on the design of any future fiscal reform that would impact their competitiveness. They are clearly concerned that external factors, including the global financial turmoil and the elections in El Salvador, will inevitably have a negative impact on Guatemala's prospects for economic growth. While worried about worsening security and growing narcotrafficker influence, they appear unconvinced by the government's proposal to increase the police and military's budget, probably because they are concerned that the government will seek to raise taxes in order to finance the increase.

McFarland